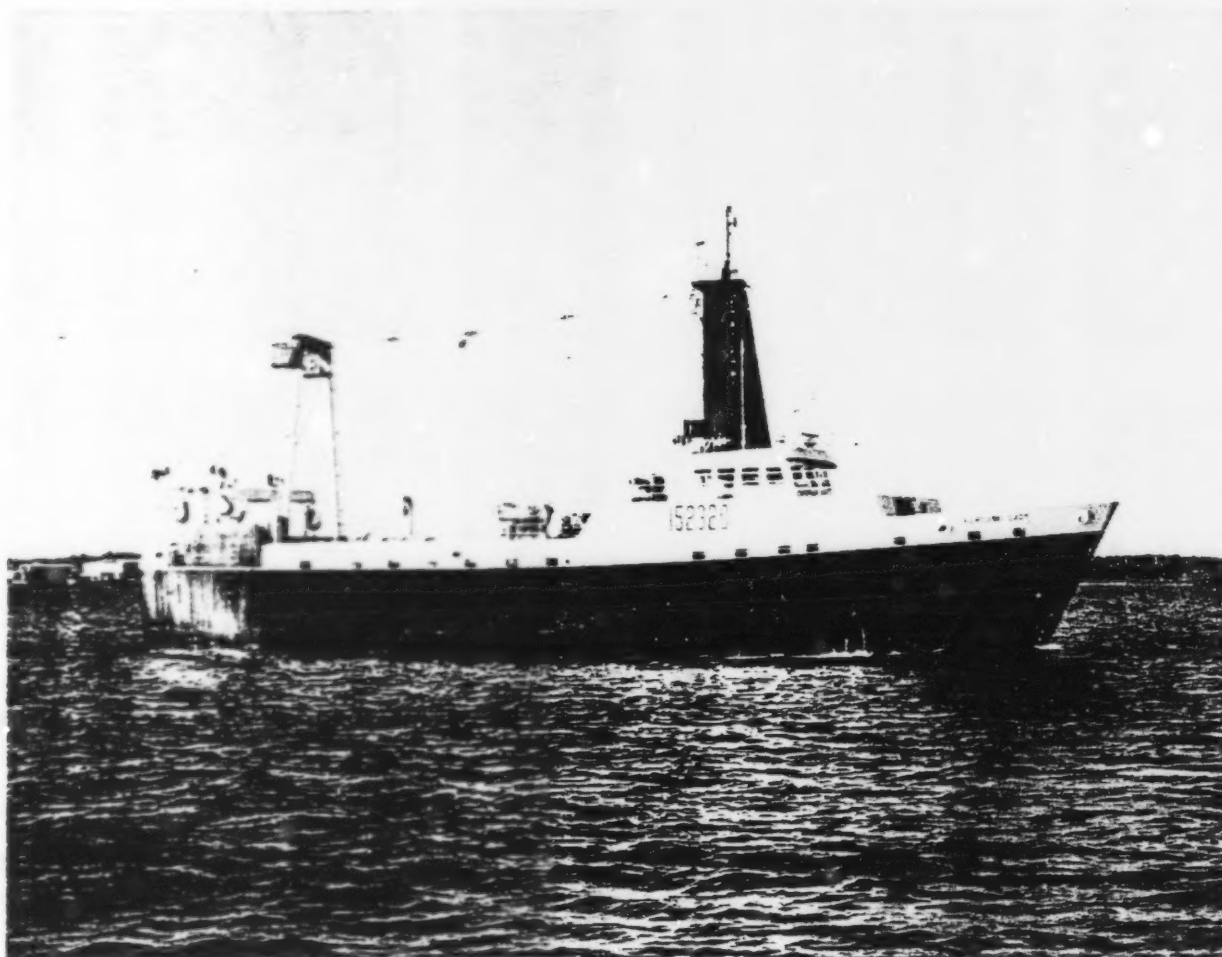


ANNUAL REPORT

MARCH 31, 1989

GEORGETOWN SHIPYARD INC.



ONE OF THREE OFFSHORE TRAWLERS UNDER CONSTRUCTION

ANNUAL REPORT

GEORGETOWN SHIPYARD INC.

MARCH 31, 1989

Established by an Act of the Provincial
Legislature (23 Eliz. II (2) Cap. 71)

Executive Council under authority of
Section 12 did order and issue a Pro-
clamation proclaiming the said "Act to
Incorporate Georgetown Shipyard
Inc." to come into force effective
5 December 1974.

GEORGETOWN SHIPYARD INC.

P.O. Box 220
Georgetown
Prince Edward Island
C0A 1L0

DIRECTORS OF GEORGETOWN SHIPYARD INC.

AS AT MARCH 31, 1989

Gerard Fitzpatrick, Chairman

Keith T. N. Lapp, Vice-Chairman

Beverley Simpson

Blair Campbell

John Sullivan

Everett MacDonald

Cynthia Hickox

The Honourable Leonce Bernard
Minister Responsible for Georgetown Shipyard Inc.
P.O. Box 2000
Charlottetown, P.E.I.
C1A 7N8

Sir,

In accordance with the provisions of the "Act to Incorporate Georgetown Shipyard Inc.", we submit the Annual Report of Georgetown Shipyard Inc. for the fiscal year ending March 31, 1989.

The Board of Directors is pleased to report that there were sales of \$6,916,002 and a net profit of \$13,223 for the fiscal year ending 31 March 1989.

The Canadian Shipbuilding industry remained at a low level during 1988 - 89. The domestic market was filled in part by purchases by Canadian customers (including governments) of heavily subsidized foreign made vessels. This includes many fishing vessels that were brought in duty free under a special exemption of fishing vessels over 100 feet in length. There were also provincial government ferries and Department of National Defence vessels either ordered or brought into Canada from offshore. The federal government apparently chose to ignore the major loss of Canadian jobs and other economic benefits.

The Canadian-US Free Trade Agreement (FTA) also works against the Canadian shipbuilding industry. The FTA specifically excludes the US "JONES ACT" from the terms of the Agreement. The "JONES ACT" states that vessels trading in US waters or between US ports (including fishing vessels) must be built in the US and crewed by US citizens. This Act prevents Georgetown Shipyard from selling boats into the United States. The anomaly of the situation is that the 25% Canadian duty on vessels coming into Canada from the US will be withdrawn over ten years and American shipyards will be able to ship into Canada duty free.

The ship repair market for docking vessels continues to decline as older fishing vessels are retired and are replaced with vessels too large for our haul-out facility. The prime example is the new four vessel Usen construction program which will replace six of their older side trawlers. The Company cannot dock the four new vessels because of size and the six retired vessels that were traditionally serviced by Georgetown have been lost.

The industrial product market remained steady but there is an opportunity to become more competitive and increase sales with the acquisition of the CAD/CAM system. Two small contracts were received for the design and automatic burning out of aluminum boat part kits.

The Company remains in a very competitive position in Eastern Canada despite the problems with foreign subsidized shipyards. There are no other shipyards in our size range in Atlantic Canada with a CAD/CAM system and the technical skills.

The shipyard has a new product R-7 Fast Rescue Craft - that is currently the only vessel in Canada certified to the Canadian Coast Guard TP-7322 - Standards for Rescue Boats. This boat (five of which have been sold to the Coast Guard) has a potential domestic and export market. There is also increased sales potential for the "V" series of 19 - 25 foot small aluminum boats not only for the traditional market in Northern Canada but also for local use.

The Company was one of the few organizations in Atlantic Canada that was certified in the year to the new aluminum welding standard CSA W47.2-M1987.

The Shipyard submitted a Productivity Improvement Plan to the federal government as a requirement to access approximately \$500,000 grant that was "earned" and is available on a 50:50

cost sharing basis to increase productivity. This Plan was approved in October 1988 and two projects (new small fabrication shop and new stores building) were completed under the grant. Other projects covering new production equipment have been submitted for approval.

The Shipyard requires a continuing modernization and upgrading program for its production and other facilities. This has been recommended by the Board for many years. The acquisition of the assets and technology of Crockett-McConnell at the beginning of the fiscal year has given the Company a proven computer aided design, drafting and manufacturing capability in addition to new product lines of small vessels to complement our existing products. This has proven out very beneficial in obtaining more business and placing the Company in a more competitive position.

The major shipbuilding production in the year consisted of the first Usen vessel (Hull 50) and the start of the second vessel (Hull 51) up to a 48% completion at year end. The production in the small vessel product range included five (5) Fast Rescue Craft for the Canadian Coast Guard, a 23 foot aluminum sea farm boat (Protan) and four (4) "V" series small boats.

Ship Repair business was steady during the repair season with the regular fishing vessel docking and refits. The over-the-winter contract for major modifications to the "Marine Courier" was started in the latter part of the year.

The major industrial contracts were the conversion of oil tanks (Ultramar), stainless steel yeast tanks, (Moosehead Brewery), wood chip burner (Sylva) and buoys (Canadian Coast Guard).

The Union Agreement expired on 28 February 1988 and, after serious negotiations, a new Agreement was signed on 18 August 1988. Union - Management relations remained generally good.

The financial statements for the fiscal year ending 31 March 1989 showed sales revenue of \$6,916,002 and a net profit of \$13,223. In addition, Georgetown Shipyard contributed \$5,971,000 directly into the Prince Edward Island economy through \$3,514,000 in salaries, wages and fringe benefits and \$2,457,000 in local purchases of materials, equipment, supplies and services.

The Board of Directors would like to extend our thanks to all the tradesmen, staff and management of Georgetown Shipyard for their support and efforts in the operation of the shipyard.

Respectfully submitted,

G. Fitzpatrick
Chairman of the Board

GEORGETOWN SHIPYARD INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

March 31, 1989

May 11, 1989

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have examined the statement of financial position of Georgetown Shipyard Inc. as at March 31, 1989 and the statements of surplus (deficit), income and changes in financial position and the schedule of expenses for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the financial statements and notes appended thereto present fairly the financial position of the corporation as at March 31, 1989 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

GEORGETOWN SHIPYARD INC.
STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 1989

ASSETS

	1989 \$	1988 \$
CURRENT ASSETS		
Accounts receivable	1,088,096	3,600,497
Inventory of materials	1,277,298	718,251
Incomplete contracts - net (note 3)	237,394	634,783
Prepaid expenses	79,034	60,913
	<u>2,681,822</u>	<u>5,014,444</u>
DEFERRED CHARGES AND SUNDRY ASSET	41,676	44,618
FIXED ASSETS (note 4)	892,828	604,542
	<u>3,616,326</u>	<u>5,663,604</u>

LIABILITIES

CURRENT LIABILITIES		
Bank advances (note 5)	684,619	3,042,345
Accounts payable and accrued liabilities	2,298,231	2,527,980
	<u>2,982,850</u>	<u>5,570,325</u>
A.D.B. LOAN — WATER SUPPLY SYSTEM	29,419	32,361
NON-INTEREST BEARING ADVANCE FROM THE PROVINCE OF PRINCE EDWARD ISLAND	578,246	578,246
APPRAISAL INCREASE CREDIT (note 4b)	12,588	15,482
	<u>3,603,103</u>	<u>6,196,414</u>
SURPLUS (DEFICIT)	13,223	(532,810)
	<u>3,616,326</u>	<u>5,663,604</u>

GEORGETOWN SHIPYARD INC.
STATEMENT OF SURPLUS (DEFICIT)
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	\$	\$
DEFICIT — BEGINNING OF YEAR	(532,810)	(747,411)
Advances from the Province of Prince Edward Island as payment towards the prior year's loss	532,810	747,411
	—	—
Net income (loss) for the year	13,223	(532,810)
SURPLUS (DEFICIT) — END OF YEAR	<u>13,223</u>	<u>(532,810)</u>

GEORGETOWN SHIPYARD INC.
STATEMENT OF INCOME
FOR THE YEAR ENDED MARCH 31, 1989

	Hull Contracts \$	Repair Contracts \$	Industrial Contracts \$	Total 1989 \$	Total 1988 \$
BILLINGS					
Made during the year	<u>9,425,004</u>	<u>812,275</u>	<u>592,426</u>	<u>10,829,705</u>	<u>5,701,754</u>
Decrease (increase) in billings made on incomplete contracts					
Opening balances	2,230,800	—	—	2,230,800	10,531
Closing balances	<u>(5,866,800)</u>	<u>(216,832)</u>	<u>(60,871)</u>	<u>(6,144,503)</u>	<u>(2,230,800)</u>
	<u>(3,636,000)</u>	<u>(216,832)</u>	<u>(60,871)</u>	<u>(3,913,703)</u>	<u>(2,220,269)</u>
Net sales - completed contracts	<u>5,789,004</u>	<u>595,443</u>	<u>531,555</u>	<u>6,916,002</u>	<u>3,481,485</u>
COSTS					
Incurred during the year . .	<u>8,664,645</u>	<u>744,719</u>	<u>884,279</u>	<u>10,293,643</u>	<u>5,861,457</u>
Increase (decrease) in costs incurred on incomplete contracts					
Opening balances	2,842,190	—	23,393	2,865,583	70,025
Closing balances	<u>(5,699,782)</u>	<u>(311,537)</u>	<u>(370,578)</u>	<u>(6,381,897)</u>	<u>(2,865,583)</u>
	<u>(2,857,592)</u>	<u>(311,537)</u>	<u>(347,185)</u>	<u>(3,516,314)</u>	<u>(2,795,558)</u>
Net costs - completed contracts	<u>5,807,053</u>	<u>433,182</u>	<u>537,094</u>	<u>6,777,329</u>	<u>3,065,900</u>
GROSS PROFIT (LOSS) — COMPLETED CONTRACTS	<u><u>(18,049)</u></u>	<u><u>162,261</u></u>	<u><u>(5,539)</u></u>	<u>138,673</u>	<u>415,585</u>
EXPENSES (schedule)				<u>2,540,834</u>	<u>1,783,337</u>
Applied to net costs				<u>2,081,181</u>	<u>824,091</u>
				<u>(459,653)</u>	<u>(959,246)</u>
				<u>(320,980)</u>	<u>(543,661)</u>
OTHER INCOME (note 6)				<u>313,825</u>	<u>10,851</u>
LOSS FOR THE YEAR BEFORE EXTRAORDINARY ITEM				<u>7,155</u>	<u>532,810</u>
EXTRAORDINARY ITEM					
Insurance proceeds in excess of recorded costs				<u>20,378</u>	<u>—</u>
NET INCOME (LOSS) FOR THE YEAR				<u><u>13,223</u></u>	<u><u>(532,810)</u></u>

GEORGETOWN SHIPYARD INC.
SCHEDULE OF EXPENSES
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	\$	\$
Salaries, wages and benefits	1,344,822	792,395
Utilities	143,319	99,826
Security	66,182	66,992
Office and postage	48,671	31,845
Repairs and maintenance	270,863	163,072
Advertising and promotion	26,452	18,639
Supplies and small tools	279,216	109,959
Travel	28,076	30,244
Insurance premiums	69,641	60,391
Taxes	14,422	13,971
Rentals	49,621	8,691
Director fees and expenses	17,247	16,049
Professional fees	8,767	89,287
Bad debts	42,623	—
Bank charges	4,296	2,728
Interest expense (income)	(13,300)	128,596
Truck expense	11,500	7,811
Inventory adjustment account	(42,033)	28,036
Miscellaneous	30,721	20,411
Depreciation and amortization	139,728	94,394
	<u>2,540,834</u>	<u>1,783,337</u>

GEORGETOWN SHIPYARD INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 1989

	1989	1988
	\$	\$
OPERATING ACTIVITIES		
Net income (loss) for the year	13,223	(532,810)
Items not affecting cash —		
Depreciation	142,622	97,288
Amortization of appraisal credit	(2,894)	(2,894)
	<u>152,951</u>	<u>(438,416)</u>
Net decrease (increase) in non-cash working capital		
balances related to operations	2,102,873	(1,496,483)
	<u>2,255,824</u>	<u>(1,934,899)</u>
FINANCING ACTIVITIES		
Payment received from the Province of P.E.I.	532,810	747,411
Reduction of A.D.B. loan - water supply	(2,942)	(2,942)
	<u>529,868</u>	<u>744,469</u>
INVESTING ACTIVITIES		
Reduction in appraisal credit	(2,894)	(2,894)
Decrease in other assets	2,942	19,442
Purchase of fixed assets - net	(428,014)	(199,577)
	<u>(427,966)</u>	<u>(183,029)</u>
DECREASE (INCREASE) IN BANK ADVANCES		
DURING THE YEAR	2,357,726	(1,373,459)
BANK ADVANCES — BEGINNING OF YEAR	<u>3,042,345</u>	<u>1,668,886</u>
BANK ADVANCES — END OF YEAR	<u>684,619</u>	<u>3,042,345</u>

GEORGETOWN SHIPYARD INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1989

1. PROVINCIAL CROWN CORPORATION

The Corporation was established in 1974 by a special act of the Legislature of the Province of Prince Edward Island. Profits and losses of the Corporation are to be taken into the consolidated fund of the Province when they become apparent unless the Lieutenant Governor in Council declares by Minute in Council that the profit is to be retained or the loss recouped.

2. ACCOUNTING POLICIES

Long-term shipbuilding contracts -

The Shipyards follows the completed contract method of accounting for revenues and expenses relating to contracts. Under this method, progress billings on incomplete contracts less costs are included as a current liability and costs in excess of progress billings are recorded as a current asset. Income is recorded when a contract has been completed; however, any anticipated or known losses are recorded by way of a provision at the time they are known.

Inventories -

Inventories are valued at the lower of cost and market. Cost is defined as average cost. Market is defined as replacement cost.

Depreciation -

Depreciation of fixed assets is calculated using the straight line method at the annual rates of 4% for land improvements, 4% for steel and block frame buildings, 6 2/3% for wood frame buildings, 12 1/2% for the launchway and marine railway improvements, 20% for the machinery and equipment and 10% for the tug.

3. INCOMPLETE CONTRACTS

	Ship Building \$	Ship Repair & Industrial \$	Total 1989 \$	Total 1988 \$
Costs —				
Material	4,432,002	551,953	4,983,975	2,607,183
Labour	639,878	64,977	704,855	129,390
Overhead	627,882	65,185	693,067	129,010
	<u>5,699,782</u>	<u>682,115</u>	<u>6,381,897</u>	<u>2,865,583</u>
Progress billings —				
Net of federal sales tax	<u>5,866,800</u>	<u>277,703</u>	<u>6,144,503</u>	<u>2,230,800</u>
COST IN EXCESS OF PROGRESS BILLINGS	<u><u>(167,018)</u></u>	<u><u>404,412</u></u>	<u><u>237,394</u></u>	<u><u>634,783</u></u>

GEORGETOWN SHIPYARD INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1989

4. **FIXED ASSETS**

(a) These are classified as follows:

	Recorded Value \$	1989 Accumulated Depreciation \$	Net \$	1988 Net \$
Land and improvements	141,682	28,987	112,695	113,735
Buildings	707,344	412,379	294,965	290,393
Marine railway improvements ..	99,525	31,801	67,724	80,165
Launchway	161,172	120,404	40,768	18,830
Machinery and equipment	1,161,055	784,379	376,676	101,419
Tug	27,163	27,163	—	—
	<u>2,297,941</u>	<u>1,405,113</u>	<u>892,828</u>	<u>604,542</u>

(b) The land and land improvements, buildings and launchway are recorded at appraised values established January 24, 1974 plus subsequent additions at cost less disposals at the recorded value, except the new stores building which is recorded at its actual cost.

The excess appraised value over the original recorded value is \$48,240 and the resulting credit is shown as an appraisal increase credit less amortization of \$35,652 accumulated to date.

The marine railway is owned by the Province of Prince Edward Island with improvements being paid for by Georgetown Shipyards Inc. and depreciated at 12 1/2% on the straight-line basis.

5. **SECURITY FOR BANK ADVANCES**

Guarantees from the Province of Prince Edward Island to the extent of \$2,000,000 expiring March 31, 1990 have been pledged as security for bank advances.

6. **OTHER INCOME**

Other income consists of:

	1989 \$	1988 \$
Subsidy previously deferred	159,538	—
Net insurance claim recovery of lost earnings	139,174	—
Sundry sales	15,113	10,851
	<u>313,825</u>	<u>10,851</u>

GEORGETOWN SHIPYARD INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 1989

7. CONTINGENCIES

- (a) During the 1985 fiscal year the company was named as defendant in lawsuits arising from a fire in August 1983, at the Georgetown Wharf. Statements of claim have been received by the company. The company has received an independent opinion that the amount of the claim is covered by liability insurance. However, no settlement of this matter has taken place and the deductible portion of the liability insurance remains as an accrued liability.
- (b) An accident occurred August 25, 1986 on the drydocking facility while hauling a vessel out of the water. The Insurance Claim covering physical damage liability and business interruption insurance was settled during the year; however, the company received a claim from the vessel's owners for damages incurred. A provision has been made in the accounts for legal costs only since the company feels any losses incurred can be recovered in a claim against the salvage company.
- (c) The company has received notice that a claim was being made as a result of a ship-building contract completed in the 1984 year. To date no legal proceedings have commenced and it is management's feeling that liability, if any, is undeterminable at this time. A provision has been made in the accounts for possible future losses.